

In conclusion

- Local competition is taking place in the Bell Atlantic region
- Resellers and CLECs are competing in the business and residential markets
- Wholesale products, systems, interfaces, centers, measurements and processes are in place to help market entry
- National standards are evolving
- ◆ Bell Atlantic is taking the lead in implementing the Telecom Act

Comparison of Competitive Entry (as of 1/31/98)

	New York	Texas	California
Total Trunks	130,000	53,000	120,000
Collocation	212	141	394
Total Orders	15,500	86,000	40,000
% Electronic	95%	25%	20%
Loops	20,000	260	30,600
UNE or Platform	1,900	242	89
Ported Numbers	44,400	10,139	22,758
Resold – Business	110,000	40,000	105,000
Resold – Residence	23,000	176,000	148,000
Total Resale	133,000	216,000	253,000
MOUs to CLEC	1,021,000,000	36,000,000*	NA
MOUs to BA	189,828,000	48,000,000*	52,000,000*
Competitor Lines			
(including Resale)	403,000	NA	NA

^{*} without Internet



Pat Garzillo Service Costs March 24, 1998



Forward Looking Cost Methodology

Investment Costs

- Forward looking technology costs are representative of immediate future capital expenditures faced by the Company in the future
- Rates assume that customers will subscribe to the service throughout the economic, life of the equipment

Non-Recurring Costs

- Traditionally, NRC rates are set for the current year to capture incurred costs for ordering and provisioning services to insure prompt cost recovery
- NRC rates based on hypothetical, untested, or purely theoretical provisioning approaches will cause the Company to under-recover today's forward-looking costs of doing business (and will be exacerbated by increased customer churn in a competitive marketplace)
- Need a "feedback mechanism" to determine if wholesale NRC rates are recovering the incurred provisioning costs of a new wholesale market as well as capture further efficiencies realized as all market participants gain experience and new systems reap benefits



TELRIC Forward Looking Cost Assumptions

Loop

- Integrated Digital Loop
- 100% Fiber Feeder
- Copper Distribution

■ Switching

- 100% Digital Switching
- ISDN Capable

■ Interoffice Facilities

- 100% SONET Fiber Facilities
- Signaling System #7
 - Signal Transfer Points, Service Control Points



TELRIC Filed Costs versus Commission Approved Rates

UNE	TELRIC FILED COSTS	COMMISSION APPROVED RATES
LINK - MAJOR CITIES	\$16.75	\$12.49
LINE PORT	\$6.03	\$2.50
LOCAL SWITCH USAGE-DAY	\$0.00762/MOU	\$0.00381/MOU
TANDEM PORT	\$13.99	\$5.28
DS3 - FIXED + PER MILE	\$1134.70 + \$25.09/mile	\$911 + \$20.10/mile
STP PORT	\$1532.22	\$775.22



Cost Study Assumptions

STUDY INPUT	BA-NY FILED	NYPSC ORDERED
LINK FILL FACTORS	DESIGN CONSTRUCT FILL FACTORS	OBJECTIVE FILL FACTORS.
SWITCH DISCOUNTS	GROWTH DISCOUNT	MIX OF SWITCH REPLACEMENT AND GROWTH DISCOUNT
COST OF MONEY	13.18%	10.2%
DEPRECIATION	ECONOMIC LIVES	PRESCRIBED RATES
OVERHEADS	BASED ON WHOLESALE FACTORS	AVOIDED RETAIL PLUS 10% REDUCTION FOR PRODUCTIVITY



Impact of Forward Looking Cost Assumptions

- Current investment of \$16B reduced to \$10B based on TELRIC approved rates
- Removed \$1.1B in current expenses based on removal of retail marketing and indirect costs
- Reduced copper distribution maintenance to reflect new copper placement
- Calculation of TELRIC rates based on traditional expense to investment relationships
 - As future investments decrease, incurred maintenance/administrative costs do not decrease at the same rate



Non-Recurring Link Installation Costs

- BA Cost Methodology
- Reviewed work operations required to install a link for a TC
 - Coordination Bureau
 - RCMAC (switch translations)
 - LDMC (loop assignment)
 - Central Office Frame (cross connect wiring)
- Calculated Weighted Average Times by work function
- Reviewed time estimates to reflect OSS mechanization as well as BAU process improvements
- Reduced time estimates for three of the four work groups reflecting potential system/process efficiencies



Non-Recurring Service Order Costs

- BA Cost Methodology
- Reviewed work operations at Carrier Account Team Center (CATC)
 - Hot Cuts and New Link Orders
 - Orders for One Link, Two-Nine Links, and greater than Nine Links
- Surveyed CATC representatives for three time estimates
 - Minimum, Maximum, and Most Likely
- Developed Weighted Average Time Estimate
 - (Min. + 4*Most Likely + Max.) / 6
- Reviewed time estimates to account for OSS mechanization
 - Single link order times for both New and Hot Cut service reduced to zero to reflect the use of DCAS ordering by the TCs



PSC Phase II Order No. 97-19 on Non-Recurring Costs

- Replaced Average Weighted Times with Minimum time estimates
 - Selected the "outlier" time estimate
 - Represents the simplest job faced by the representative/technician as opposed to the full range of job complexity captured by the complete Min/Max/Most Likely survey results
 - For those time estimates that represented the experience of a single subject matter expert (because in some cases the activity in question has not as yet been performed) the Company's time estimates were reduced by 43%
- For the link installation, today's current multi-cross connect provisioning process was rejected for a future electronic cross connect assumption
 - Fails to recognize costs that are being incurred today due to the requirement to connect the link frame appearance(s) to the TCs' Collocation Cage
 - Current provisioning activities will be required in most central offices for the foreseeable future
 - Present technology selection (IDLC) may be replaced/outmoded during this period
- The NYPSC postponed the use of an "electronic cross connect" time estimate for a one year period.



Non-Recurring Costs Loop (SVGAL)

ELEMENT	FILED COSTS		APPR RAT	OVED 'ES
Service Order	New Link	Hot Cut	New Link	Hot Cut
1 Link 2 - 9 Links 10 or More	\$0.00 \$0.00 \$14.99	\$0.00 \$14.99 \$14.99	\$0.00 \$0.00 \$8.70	\$0.00 \$7.50 \$8.70
Provisioning	\$57.34	\$86.81	\$28.44	\$44.86



Non-Recurring Costs End Office Line Port

ELEMENT	FILED COSTS	APPROVED RATES
SERVICE ORDER	\$0.00	\$0.00
PROVISIONING	\$44.79	\$32.70



TELRIC Phase III (March 1998)

- CENTREX/ISDN Features
- Non-Recurring Provisioning Costs
- SS7 Transport & AIN
- Operator Services & Directory Information
- Collocation
 - Physical and Virtual



Costs for Opening up the Local Network

- One-Time Development Onset Expenses
 - Methods and Procedures
 - Interfaces and New Functionalities/Systems
 - Modifications to existing systems
- Ongoing Onset Expenses
 - Investment-related
 - Keeping One-time development current
 - New activity costs
- Specific Carrier Requirements



One-Time Development Onsets - (for System Demonstrated)

- \$107M of Expense for OSS implementation
 - Interface/Functionality/System development
 - Requisite modifications in existing systems
 - Necessary methods & procedures
- \$31.3M of Incremental Investments
- The Company's effort was mandated by the Act and the express requirements of Carriers



Cost Onsets: Charges **During Recovery Period**

RATE
ELEMENTS

BA-NY PROPOSED ORDER

NYPSC

RESELLERS	\$2,464/Mo	DEFERRED
CLECs	\$4,743/Mo	DEFERRED
COST PER TRANSACTION	\$0.96/Each	DEFERRED



Activity-Related Charges

- Non-recurring charges apply when an End-User switches to a competitor to recover the costs associated with the required activities.
- Solvent businesses pass along costs associated with providing products and services to the users of those products and services.
- Costs incurred by Bell Atlantic to provide service to End-Users (new or migrating from a competitor) are passed on to the End-Users as non-recurring charges and/or the actual rates of the services.



Who Should Pay?

- The most appropriate method, and the one that most promotes economic efficiency in a market is that recovery should come from the cost causers.
 - Many of the costs are required in order to achieve the avoidable-cost "savings" that have already been passed on to the Resellers and CLECs.
- Various parties have suggested that the costs be recovered from: The Carriers, Shareholders of the ILECs, the End-Users, Other Sources.
- Difficulties exist in recovering costs from certain groups due to existing regulatory environments.

Wholesale Performance Reports

Bell Atlantic

Julie Canny March 24, 1998 3/24/98 - 10:35 AM

Michigan September Company



Agenda

The Evolution of Performance Metrics:

- □ FCC Merger Order
 - Reports
 - Negotiate Standards & Remedies
- □ DOJ Additional Requirements for LD Entry



How to determine parity??? The Moving Target

- □ LCUG: Local Competitors Users Group
- □ State Service Proceedings (NY)
- □ Individual Carrier Negotiations/Arbitrations
- □ DOJ/FCC Comments on 271 Filings
- □ FCC Merger Order
- □ DOJ Letter to SBC



FCC Order on Bell Atlantic Merger

- □ Performance Reports
- □ Negotiate Standards subject to mutuality
- □ Negotiate Self Enforcement Mechanisms

Bell Atlantic FCC Reports

- □ 22 Categories for each of 14 jurisdictions:
 - Pre-Ordering (2 measures)
 - Ordering (5 measures)
 - Provisioning (6 measures)
 - Network Performance (2 measures)
 - Maintenance (5 measures)
 - Billing (2 measures)
- □ Services Measured:
 - Operational Support Systems (OSS)
 - Interconnection Trunks
 - Unbundled Network Elements (POTS & Specials)
 - Resale (POTS & Specials)



Bell Atlantic FCC Merger Agreement - Reporting:

- □ Customer Groups:
 - To FCC:
 - Aggregate of CLECs
 - Bell Atlantic
 - Bell Atlantic Subsidiary (When/If Created)
 - To Carriers:
 - Individual CLEC Performance
- ☐ Geography:
 - By State
- ☐ Time frame
 - Quarterly with Monthly Information
 - 45 Days after Close of Quarter